

## China's Global Hunt for Oil

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During a recent trip back to China, I saw that it was not the China I recognized. I found a dynamic, booming and ever-changing new China. China's economy, which has averaged 9 percent growth per year over the past twenty-five years, requires massive supplies of natural resources to sustain its growth. It is a huge dragon that needs to be fed. According to China's own calculations, 94 percent of its energy needs are still being met by domestic supplies, only 6 percent of its energy needs are imported and 67 percent of China's energy supply is still from coal burning. China currently consumes about 6 million barrels of oil per day. That represents less than one-third of America's consumption of approximately 21 million barrels a day.

As its economy continues to grow at a high rate, China is becoming increasingly thirsty for energy from abroad. It became an oil importer in 1993 and in 2003 replaced Japan as the second largest oil consumer in the world. Currently China im-

ports nearly 3 million barrels of oil a day. However, as you know, with the continued modernization of the Chinese economy and the rising living standards of the average Chinese citizen, the demand for oil, gas and other energy sources is expected to increase dramatically. China accounted for 40 percent of the total growth in the global demand for oil over the last four years but, since its domestic oil production capacity is outdated and limited, it will have to import more oil from abroad as it goes forward in its modernization.

Since the early 1990s, China has considered the development of diplomatic relations with oil rich countries to be a national priority. In addition to its strategic focus on BRIC power relations along with its tradition of emphasizing relations with its Asian neighbors, Chinese diplomatic activities have now expanded to Latin America, the Caribbean, Africa, the Middle East, Central Asia, and South Pacific. We have reached the point that if

### **Biography**

**Zhiqun Zhu** is currently John D. and Catherine T. MacArthur Chair in East Asian Politics and Associate Professor of Political Science and International Relations at Bucknell University in Pennsylvania. His recent publications include *US-China Relations in the 21st Century: Power Transition and Peace* (Routledge, 2006), *Understanding East Asia's Economic "Miracles"* (AAS Publisher, 2009), *Global Studies: China* (ed. McGraw-Hill, 2010), and *China's New Diplomacy: Rationale, Strategies and Significance* (Ashgate, 2010). His teaching and research interests include Chinese politics, East Asian political economy, and US-East Asian relations. He has received several research grants and fellowships and was named a POSCO Fellow by the East-West Center in Hawaii in 2006 and a Senior Visiting Fellow by the National University of Singapore in 2010.

one does not know China's policy toward the Middle East, Latin America and Africa, one does not understand Chinese diplomacy as a whole. Nor can one fully understand these regions without knowing about these regions' expanding relations with China.

Aware of the vulnerability of the energy market, China has attempted to diversify the sources of its energy supply as much as possible. It has oil and other energy deals with many energy rich countries including Canada, Mexico, Russia, Indonesia, Angola, Nigeria, Saudi Arabia, Sudan, Iran, Kazakhstan, Turkmenistan, Libya, Myanmar, Brazil, and Venezuela among others. The Middle East, Africa, and Latin America, once considered too distant for any significant political and economic investments, have become newfound locations to advance key objectives of Chinese foreign policy.

China's economic and political activities in the Middle East are part of its new global diplomacy. A major pillar of its Middle East policy is obtaining oil from that region. More than 45 percent of China's oil import was estimated to come from the Middle East in 2004. The top three suppliers of crude oil to China are Saudi Arabia, Oman, and Iran. Iran alone already accounts for 11 percent of China's oil imports. Chinese relations with Saudi Arabia, the largest oil producer, are also very strong. The Saudi Oil Corporation has been expanding in recent years and the Saudi Oil Minister, Ali Naimi, has made at least six trips to China in the past two years. King Abdullah's

first official visit abroad was to Asia in January 2006. His first stop was China.

An oil refinery project jointly owned in by Saudi Arabian and Chinese companies began production in Saudi Arabia at the beginning of 2006. The Saudi state oil companies are already in talks with China concerning joint refinery projects to process heavy oil which is more difficult to refine. During the Saudi King's visit in January 2006, the two countries signed an agreement of oil, natural gas and mineral cooperation in which Saudi Arabia promised to increase annual oil and natural gas exports to China by 39 percent. As part of the agreement, a 100 million ton crude oil storage facility is also planned for construction in China's Henan province.

China has also negotiated a free trade agreement with the six Gulf Corporation Council countries. The Middle East has served as China's largest supplier of oil. In 1998 and 1999, for example, imports from that region accounted for about 60 percent of the total Chinese oil imports. More recently, China has attempted to diversify sources of energy and it has increased imports from other regions. Nevertheless, China's growing influence in the Middle East is unmistakably evident. In Egypt, the most populous Arab country, China is considered a trusted friend and has been invited to participate in the joint development of the Suez Canal special economic zone. Sino-Egyptian trade is growing rapidly and it was expected to reach \$2 billion by the end of 2006 and cultural and educational exchanges are also robust. We have heard a lot about the American University of Cairo but

very soon there will also be a Chinese university there as well. China and Egypt have signed an agreement to establish a Chinese University of Egypt in Cairo.

China now imports about 28 percent of its oil and gas from Africa. Its voracious demand for oil has led it to seek oil supplies from countries such as Sudan, Chad, Nigeria, Angola, Algeria, Gabon and Equatorial Guinea. Top Chinese leaders, including President Hu Jintao, Prime Minister Wen and Foreign Minister Li, have all visited Africa in recent years and China's leading energy companies have signed oil contracts with nearly a dozen African countries. Chinese oil companies have been aggressive in these initiatives. For example, according to the business manager of the national petroleum corporation of Nigeria, an OPEC country and the largest oil producer in Africa, the Chinese call and e-mail him every day seeking oil deals. In July 2005, China and Nigeria signed an 800 million barrel crude oil agreement for Nigeria to provide 30,000 barrels of oil a day to China for five years.

Since 2001 China has developed several oil fields, built a 930 mile long pipeline, a refinery and a port in Sudan. Chinese companies have been pumping crude oil from oil fields in Sudan. They send it through a Chinese-made pipeline to the Red Sea where tankers await to ferry it to China's industrial centers. Oil from Sudan makes up about 10 percent of all of China's imported oil. In 2005 China bought half of Sudan's total oil exports.

China is also the largest foreign investor in Zimbabwe, where President Robert

Mugabe's policies have impoverished the country and left millions homeless. Zimbabwe does not have oil but it is the world's second largest exporter of platinum, a key import for China's auto industry. In Angola, ethnic Chinese have become the largest immigrant group. In 2005, China offered Angola a \$2 billion soft loan as part of a long-term aid package and won its bid for exploratory drilling to find potential oil fields in Angola. China's closest competitor in the bidding was not the United States or Japan but India.

China is now Africa's third largest trading partner; it is offering poor African countries comprehensive and sometimes exploitative trade deals combined with aid. China's aid for oil strategy has resulted in increasing supplies of oil from African countries, but unlike Western countries that often demand African countries to deal with issues of corruption and democratization, these financial aid packages have no political conditions attached. African governments view China as a more cooperative partner than the West and generally welcome China's investment in business. Today more than 900 Chinese doctors are working in Africa and China has built roads, bridges, dams and power plants for many African countries. With each new deal, China's role in Africa deepens.

Securing reliable access to petroleum products from Latin America is an important element of China's engagement in the region especially with Venezuela, Colombia, Brazil and Ecuador. Chinese interests have also included iron, tin, soy-

beans, and other resources and foodstuffs from the region. Latin America has become a vital source of raw materials for China. In the past six years, Chinese imports from Latin America have grown more than six fold or by nearly 60 percent per year. The Chinese President, Hu Jintao, travelled to Latin America twice in the past two years, spending a total of sixteen days there and President Hu's trips have been reciprocated by a series of visits to China by Latin American heads of state, economic officials and corporate leaders. At a speech to the Brazilian Congress, President Hu stated that China would invest 100 million USD in Latin America over the next ten years. Given the overall decline of net FDI flows to Latin America in recent years, Latin American countries welcome trade with China.

Venezuela has the largest oil reserves outside of the Middle East and it has a President who says that his country needs to diversify its energy business beyond the United States. Venezuela has obviously emerged as an ideal oil source for China. China now imports only small quantities of oil from Venezuela since it does not have the refining technology needed to process Venezuela's heavy crude, but the potential for cooperation between the two countries is huge. In December 2004, President Chavez traveled to China to sign 19 cooperation agreements, including plans for Chinese investment in oil and gas exploration. The China National Petroleum Corporation, which already operates two Venezuelan oil fields, agreed to spend an additional \$400 million in developing Venezuelan oil and gas

reserves. China will develop 15 declining oil fields in eastern Venezuela and buy 120,000 barrels of oil a month. Venezuela is also exploring plans to rebuild a pipeline to Panama to pump crude oil to the Pacific where it will be loaded on super tankers that are too big to use the Panama Canal. Venezuela and Colombia are also considering the construction of a pipeline across Colombia to carry Venezuelan oil to be shipped to Asia from Colombia's Pacific ports.

China and Brazil formed what they call an "all-weather strategic partnership" during President Hu's visit to Brazil in November 2004 and China has become the third leading destination of Brazilian oil exports. It invested one billion USD in a joint venture with Brazil for the construction of a gas pipeline linking southern Brazil to the northeast. In addition, China has concluded oil and other energy deals with Ecuador, Bolivia, Peru, Argentina, Colombia and the Bahamas.

Quests for energy and securing its north and northwest borders have been the focus of China's policy toward Central Asia. It has set up trade missions in each Central Asian nation in recent years. China and Kazakhstan, for example, are discussing the construction of a natural gas transportation system following the oil pipeline linking the two countries that was built in December 2005. The \$700 million pipeline is expected to start operations in May 2006 and bilateral trade is expected to increase to \$10 billion by the end of this year.

China is also Russia's top customer for oil and weapons. Trade between the two former communist countries reached more than \$29 billion last year and is expected to double during the next four years. For now Russia exports roughly 55 billion barrels of oil to China annually by less efficient railroad tankers. Therefore China hopes that Russia will build a far eastern oil pipeline to China, not to Japan. Most recently Russia agreed to build two natural gas pipelines to China in the coming years.

What can we learn about China's diplomacy from this brief survey of its hunt for energy sources? When talking about the major patterns and major characteristics of Chinese new diplomacy, these are my evaluations. Number one, energy has become the top objective of the new Chinese foreign policy. Thomas Friedman in his book, *The World Is Flat*, summarized two major foreign policy objectives of China: one is unifying with Taiwan and the other is looking for oil. The Taiwan issue is not new. China has always wanted Taiwan back, but this energy issue is a new issue in China's foreign policy. In fact, energy has become a top priority for Chinese foreign and security policies in recent years. We have witnessed increased top level involvement in this new Chinese diplomacy. The President, Vice President, Prime Minister, Foreign Minister and all other economic-related top officials have all visited Latin America, Africa, and the Middle East and many leaders from these regions have also visited China, often accompanied by huge trade delegations.

Huge energy demand is drawing China into deeper involvement in politically unstable regions around the world. From the U.S. perspective, China's foray into what was traditionally American spheres of influence, particularly in the Middle East, Latin America and Africa, is disturbing to say the least. Strategically speaking, the United States is uncomfortable with China's growing activities in the regions where the United States has enjoyed a near monopoly on international influence since the end of the Cold War. I think China's diplomatic activities have been primarily driven by economic interests. There is no solid evidence to show that China is engaged in any strategic competition with the United States or any other powers around the world.

The second characteristic of China's new diplomacy is what I call separation of business and politics. It is almost impossible to separate politics, business and economics but China is trying to achieve separation of business and politics. While the Western countries have tried to impose a market economy and democracy on developing countries that are often not ready for it, the Chinese are trying to separate politics from business. It is entering the market without political expectations or any other political demands. There are no political or other conditions attached and the Chinese government is also against embargoes which some Western countries seem to favor against rogue developing countries. China has provided investment and development aid to Africa, Latin America, the Middle East and other regions where the West has been reluctant to make deals. This practice of



separating politics and business worries many people. China's willingness to deal with rogue nations such as Sudan, Iran and Libya, overlooking corruption, and ignoring safety and environmental concerns may undermine democratic institutions and Western efforts to promote transparency and good governance in those regions.

Thirdly, China is trying to avoid direct confrontation with the United States in all the regions that we have mentioned. China is aware that the United States is watching closely China's new multidirectional diplomacy. However, China is not seeking to replace the United States as the global power. For example, despite its long standing opposition to UN sanctions on Iran for Iran's nuclear programs, China has agreed with the other four permanent members of the UN Security Council to report Iran to the Security Council of its nuclear program if Iran fails to account for its nuclear activities to the International Atomic Agency (IAEA). In Latin America China has kept some distance from President Chavez of Venezuela. Despite growing Chinese activities in Latin America, most analysts doubt that any of China's initiatives will provoke a confrontation with the United States in the Western hemisphere.

Fourthly, China's political and diplomatic influence in the world is still very limited. The United States, due to its preoccupation with Iraq in recent years has paid little attention to Latin America and Africa. This provides opportunities for other countries like China and India to fill a vacuum. However, China's global inter-

est is overwhelmed by America's stronger ties with key players in every region. For example, in 2000, Israel bowed to pressure from the United States and cancelled its plan to sell \$1 billion worth of early warning radar systems to China. For Israel, its relations with the United States are still more important than any other set of relations Israel has. Although China and Saudi Arabia are likely to expand their ties, Saudi Arabia is unlikely to compromise U.S. interests to please China in the near future.

Fifthly, as China continues to expand economic and diplomatic activities in the Middle East, Middle Eastern countries also expect China to play a bigger role in regional issues. Increasingly, Middle Eastern countries are beginning to turn to China for help in conflict resolution. For example, China has become very involved in the Middle East process and Egypt expects it to play a more active role. Israeli President Moshe Katsav also remarked that China has good relations with both Israel and Arab countries. Very few big powers have good relations with both sides, so China can contribute positively to relations between Israel and the Arab world. Those are five major points that I summarized based on my observations.

You may wonder what is the future. What kind of future can we look for? I have three points. Number one, China will continue to integrate into international political economy. Its active participation in international political economy is good for China and good for many developing countries. China has contributed positively to global develop-

ment and it has become and will continue to be a key player in the global energy equation. China's political influence in the world will continue to grow responding to its expanding economic power. It is impossible and also unwise for the United States or any other power to try to exclude China from the Middle East, Latin America or Africa.

Secondly, China's thirst for energy poses a counter-development problem for the international community. There is a lot of competition for China's growing demand for oil, but remember that even without China, energy demands from India and other emerging markets are expected to jump drastically in the next few decades. How to reduce the cost of organization and how to improve development efficiency has become a serious challenge for the international community. We may have to develop alternative energy sources such as ethanol, biomass, solar, wind power and nuclear energy. The international community needs to pay more attention to energy conservation and the efficient use of energy. That is another area in which the United States, China and other developing countries can cooperate.

Finally, what can the United States do? The United States and China, according to news reports, will launch a dialogue to understand each other's policies, interests and intentions in Latin America. That is good news. This kind of dialogue should cover every region we just talked about. For the United States, paranoia about a coming China threat and misguided policies based on this assumption will be the

wrong choice. What the United States can do now is to engage China and work together with other powers to assure the healthy development of China. On the other hand, to become a respected and responsible power, China in its trading with countries in the Middle East, Latin America and Africa must also help Western countries to address their interests such as increasing transparency, establishing rule of law, and improving human rights in those countries. After all, such policies are also in the long term interest of China.

China's hunt for energy sources is largely driven by its domestic growth and searching for energy has become a major Chinese foreign policy objective. Its global activities have contributed positively to global development although they have had some problems and, admittedly, there are some concerns from the United States and other countries. What the international community and especially the United States can do is to work with China, address its legitimate needs and concerns and help China to develop peacefully as a responsible and respectable power.